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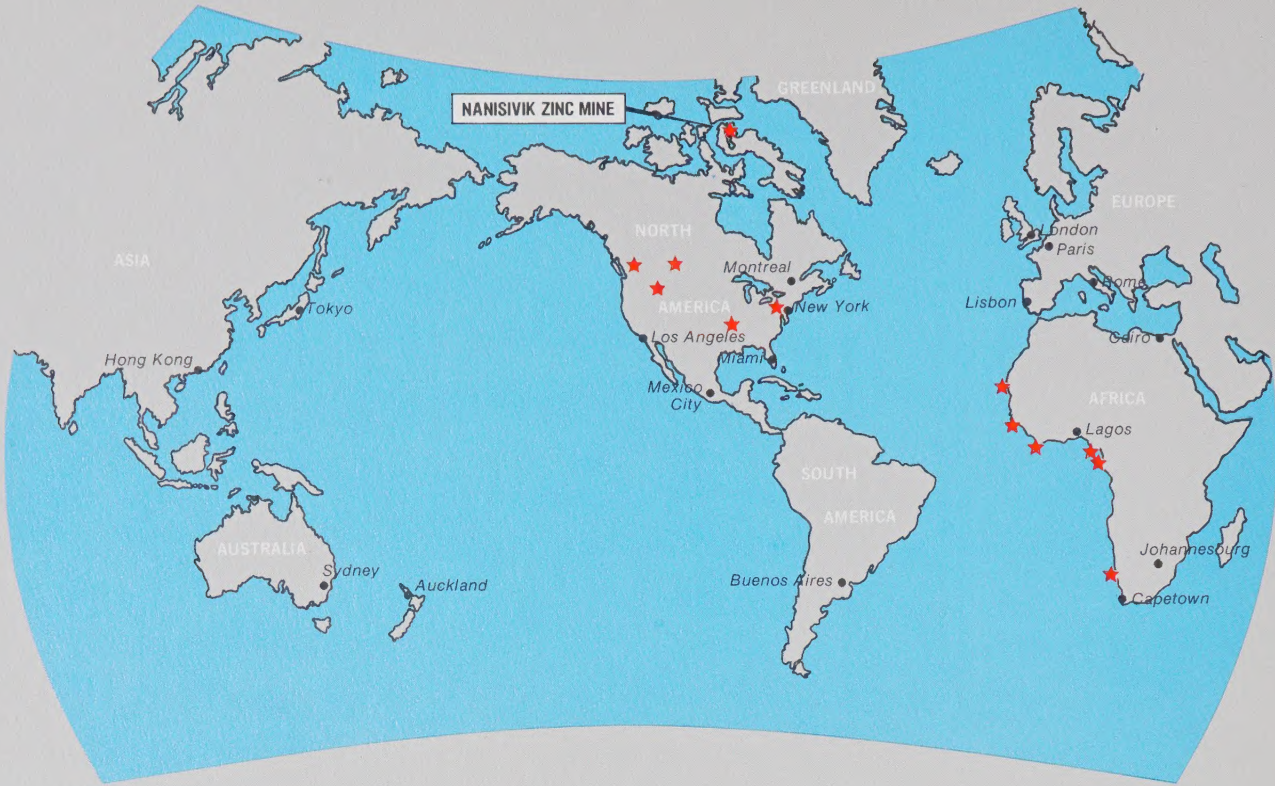
1977 MINERAL RESOURCES INTERNATIONAL LIMITED

ANNUAL REPORT



MINERAL RESOURCES INTERNATIONAL LIMITED

Directors

C. FRANKLIN AGAR
JOHN BROWN
VICTOR F. BURSTALL
WILLIAM A. CLARKE
ZAVE CLIMAN
JOHN L. GAIRDNER
SAM HASHMAN
HAROLD P. MILAVSKY

Officers

C. FRANKLIN AGAR, President
HAROLD P. MILAVSKY, Vice-President
VICTOR F. BURSTALL, Secretary

Registrar and Transfer Agent

MONTREAL TRUST COMPANY
Toronto and Calgary

Auditors

TOUCHE ROSS & CO.
Calgary, Alberta

Solicitors

BURSTALL & COMPANY
Calgary, Alberta

Shares Listed

"MRI" The Toronto Stock Exchange

Head Office

Suite 401 - 44 Victoria Street
Toronto, Ontario

Operating Office

610 - Three Calgary Place
355 - 4th Avenue S.W.
Calgary, Alberta T2P 0J1

COVER PICTURE —
First loading of metal concentrates on 22,600 tonne bulk carrier "Gothic Wasa" in August 1977 at Nanisivik.

Report to the Shareholders

Production operations at Nanisivik continued to improve through 1977 and although capacity annual production rate was not achieved, some 526,149 tonnes of ore were mined and milled yielding 133,185 tonnes of zinc and lead concentrates. Five shipments totalling 105,743 tonnes of concentrates were made from early August to mid-October which completed the first annual production cycle and comprised a successful test of the last component of this most northerly metal mine in the world.

Nanisivik recorded a small operating loss during the calendar year of 1977 and a further loss of some $2,200,000 during the first quarter in 1978 mainly as a result of a 31% decrease in the European producer price for zinc from the start of production in October, 1976 to the last payment period for concentrates shipped in 1977. Cash flow was sufficient however to pay interest and make the first mandatory annual payments on the principal of Nanisivik's bank loans. The European producer price appears to have bottomed out now at $550 U.S. per tonne of zinc and we anticipate some strengthening in zinc prices by the time Nanisivik ships and sells concentrates in the last quarter of 1978 and the first quarter of 1979. In the interim, a concerted effort is being made to control and reduce operating costs.

In September, 1977, Baymag Mines Co. Limited shipped a 200 tonne bulk sample of magnesite to a European refractory company for testing. Baymag is now negotiating with this company toward arrangements that could lead to the development of its magnesite property.

In recent months MRI has made significant progress in diversifying into the energy field. A number of coal properties were investigated and an agreement has been signed to purchase a 66 2/3 % interest in a 16,500,000 ton U.S. property with two producing underground mines. The agreement is subject to certain terms and conditions and the results of a feasibility study, which at the time of this report, is not yet complete.

Of perhaps more importance, we have retained the services of three men of considerable talent to compliment our Calgary office in an expanded oil and gas exploration program. George Charlton, who, after 26 years of domestic, U.S. and international experience, recently resigned as International Exploration Manager for a large independent oil company and Robin McQueen, an exceptional geophysicist with over 24 years of international

experience, will jointly manage the program. They will be assisted by Jeffrey Clarke, a highly regarded geophysicist with over 10 years of varied experience in a number of the world's major producing basins. Two new potentially significant oil and gas properties have been acquired and others are under examination.

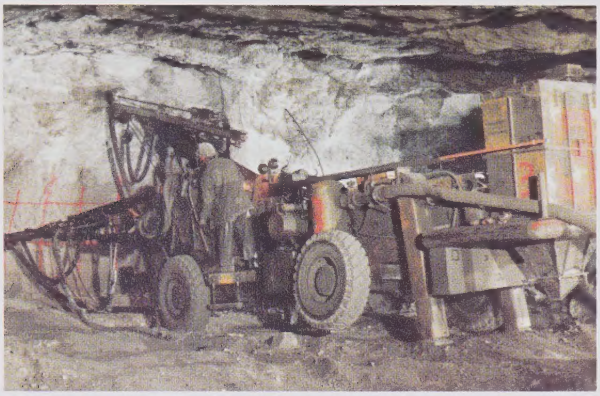
To finance this expanded diversification effort, interim banking arrangements have been made and financing discussions and negotiations are in progress with certain of MRI's major shareholders and with interested outside parties.

On behalf of the Board of Directors

C. F. Agar

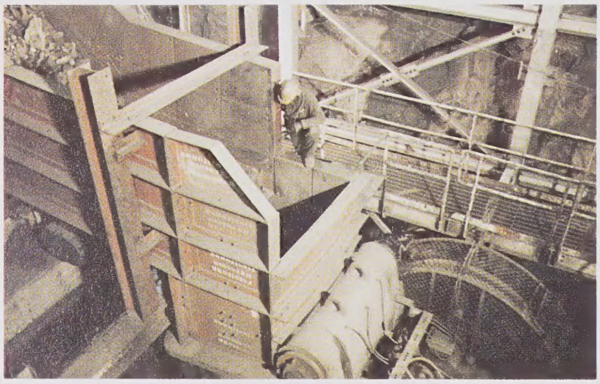
Calgary, Alberta
May 10, 1978

C. F. Agar
President

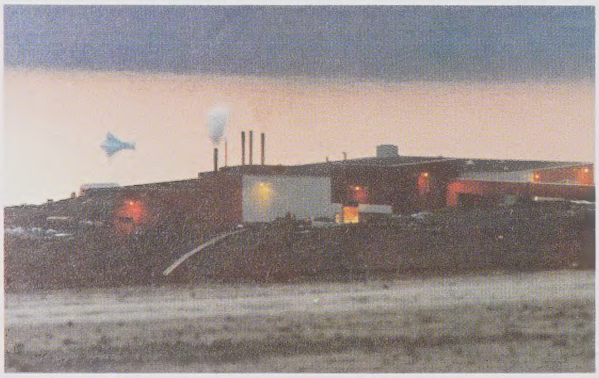


Drilling blast holes in a working face with a 2 boom drill jumbo equipped for dry drilling with pneumatic dust collection system.

After the holes are loaded with anfo explosive the ore is blasted loose, loaded, hauled and dumped down a vertical ore pass with LHD units.



The raw ore feeds by gravity from the ore pass to a 42" x 48" jaw crusher and $5^1/_2$' cone crusher which crush it to a maximum size of $^5/_8$". It is transported from underground by a belt conveyer to the mill.



The waste rock is separated from the zinc and lead sulphide minerals and the concentrates of these minerals are trucked 2 miles to the storage building at dock site pending shipment to market.

Projects

Nanisivik Mines Ltd. (MRI 53.6%*)

Production

The loading of the 22,600 tonne bulk carrier Gothic Wasa with zinc and lead concentrates at Nanisivik, Baffin Island in early August, 1977 culminated some $5^1/_2$ years of development, construction and production work from the time MRI became involved in the project. Five shipments totalling 93,500 dry tonnes of zinc concentrate and 12,700 dry tonnes of lead concentrate were made during the 1977 shipping season which completed the first production cycle of the project.

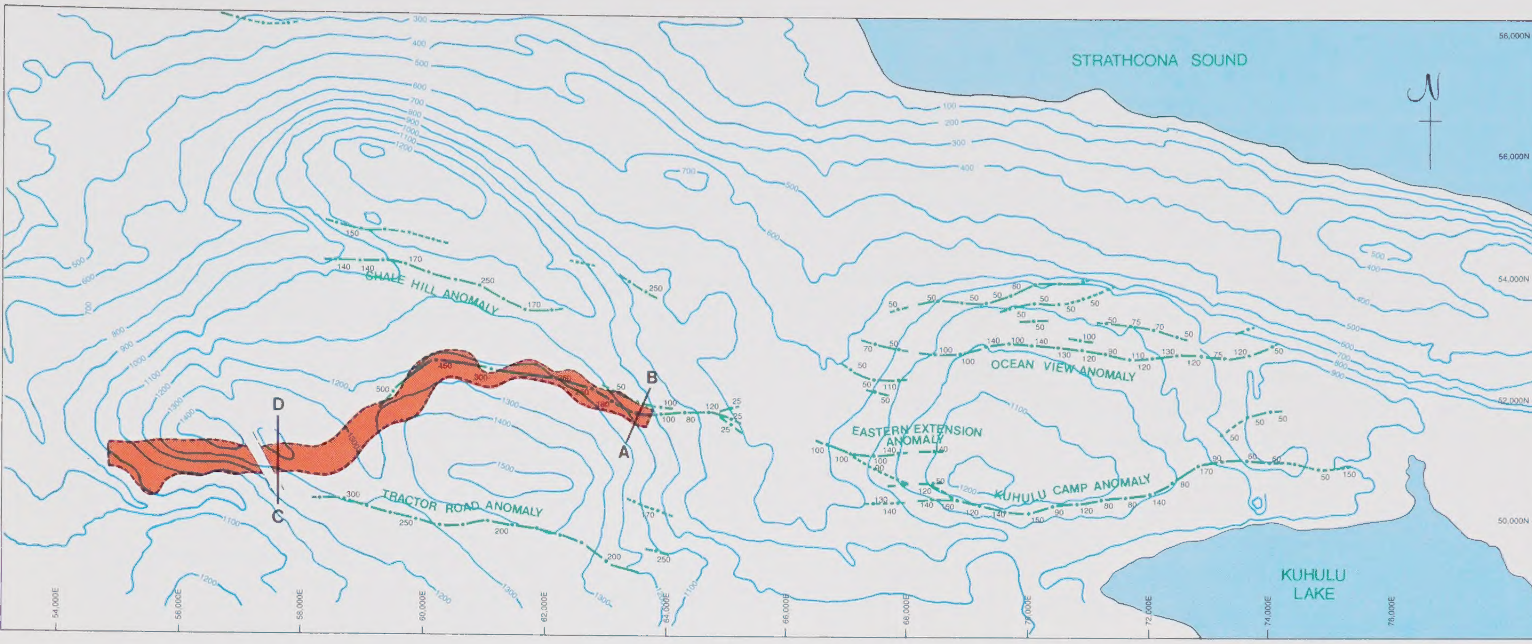
Mining and milling operations were improved in 1977 as a result of adjustments to the mill circuitry and operating procedures, and the experience gained by our personnel. During 1977, 526,000 tonnes of ore with an average grade of 13.3% zinc and 2.0% lead was milled yielding 117,900 tonnes of zinc concentrate grading 57% zinc and 15,300 tonnes of lead concentrate grading 61% lead.

Underground development work proceeded well throughout the year with sufficient working faces now available to provide a consistent mill feed grade. Because the mine is entirely within permafrost with ore temperatures of −12°C, a dry drilling technique with pneumatic dust collection was successfully developed which, as a side benefit, has resulted in a much higher drill productivity. This represented a major achievement by our mining staff.

With the phasing out of construction activities on site, the production workforce has stabilized at approximately 180 including some 40 Inuit and 40 women. We believe Nanisivik may have a greater percentage of women on its workforce than any other mining operation in Canada and we are very pleased with the major contribution that they are making to the project. Nanisivik will continue to work toward increasing the level of Inuit participation in the workforce and will be giving increased emphasis to on-the-job training programs.

The 31% decrease in the European producer's zinc prices from $795 U.S. per tonne of zinc at the start of production in October, 1976 to the current price of $550 U.S. per tonne has had a significant negative impact on Nanisivik's cash generation from its concentrate sales. As a result, Nanisivik recorded a small operating loss to December 31, 1977. After losing one-half a month's production in January due to a bearing problem in the jaw crusher and as a result of foreign exchange losses and low zinc prices, Nanisivik incurred a further loss of some $2,200,000 in the first quarter of 1978. Nanisivik's cash generation was sufficient however to pay the interest costs on its bank loans and to make the first mandatory annual payments to reduce bank loans by $1,120,000 Cdn. and $1,242,246 U.S.

*Overrun financing arrangements will reduce MRI's interest to 53.6%.



Zinc prices now appear to have bottomed out and should begin to rise to more reasonable levels in response to rationalization steps within the industry. Nanisivik's profitability in 1978 will be primarily dependent on control of costs, on the concentrates it can produce and sell under its long term contracts, and on the prices received for concentrates shipped in the 1978 season which will be paid for according to metal prices prevalent during the last quarter of 1978 and the first quarter of 1979.

We would like to express our thanks to all personnel at Nanisivik for their contribution in making this High Arctic project such a technical and operating success during the first full year of production.

Exploration

The above map illustrates the portion of the Nanisivik lease containing the main orebody (colored in red) and the position of the main geophysical anomalies (in green). Since these anomalies may be caused by ore grade mineralization or barren pyrite, they must be proved or disproved by drill sampling. Early drilling by Texasgulf located ore grade mineralization north of the Ocean View anomaly. Ore grade mineralization was also found in an outcrop near the west end of the Eastern Extension anomaly and in drill holes that may be associated with the east end of the Shale Hill anomaly. Last summer a deep broad EM anomaly was found east of Kuhulu Lake that will warrant drill testing.

Figure 1 illustrates a theoretical cross section of a mineral filled Karst (ancient cave) system of "tubes" and "canyons" which may account for the spatial distribution of mineralization at Nanisivik. We believe the main orebody is contained in a near horizontal "tube". Cross sections A-B and C-D show the interpreted configuration of mineralization at two of

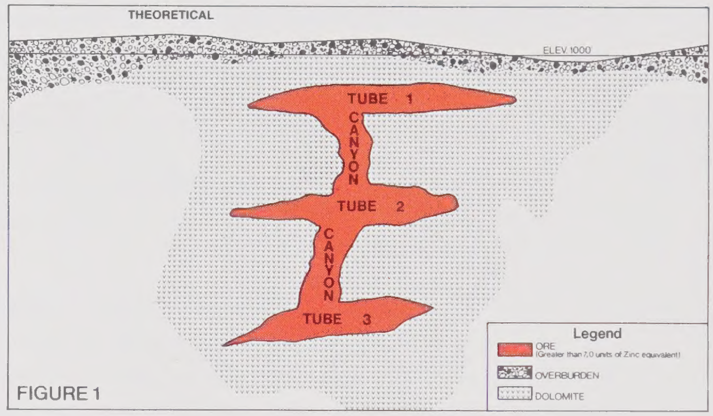
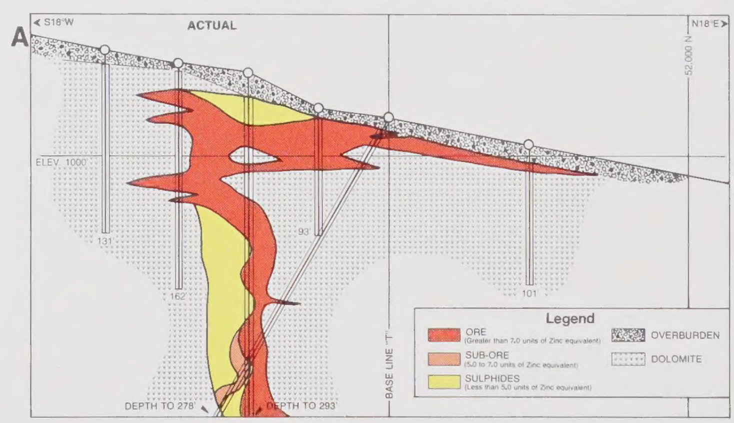
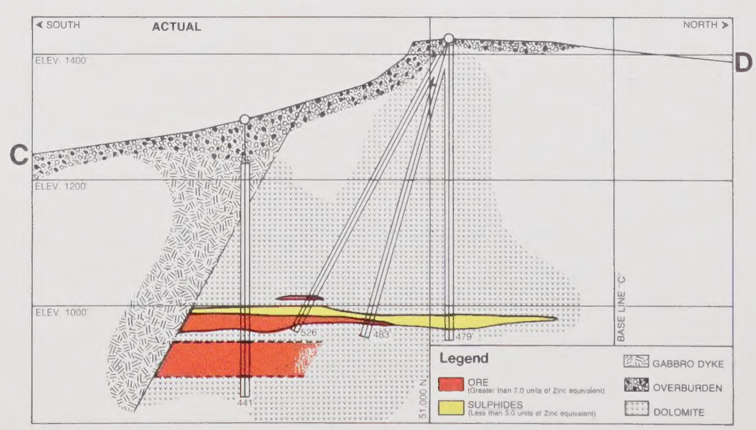


FIGURE 1





the drilled sections of the main orebody. In cross section A-B there appears to be a mineralized "canyon" extending downward below the main orebody for at least 60 metres, and in cross section C-D a drill hole penetrated what may be a second mineralized "tube" some 16.8 metres thick with a combined zinc/lead grade of 22%.

There have been several other intersections of ore grade mineralization in holes drilled under the main orebody and we believe that by exploring at depth and laterally in the areas of interest indicated by geophysical anomalies, Nanisivik will maintain or gain in its inventory of ore reserves.

After mining 638,000 tonnes of ore, reserves were calculated as of January 31, 1978 at 6,353,000 tonnes grading 13.48% zinc and 1.45% lead. These combined tonnages represent a 10.5% increase over the 6,324,000 tonnes of ore reserves, grading 14.12% zinc and 1.4% lead, estimated to be in the main orebody prior to the start of mining operations.

Other Projects

Aquarius Mineral Exploration Joint Venture

On Texada Island, offshore British Columbia, work in 1977 indicated several strong IP anomalies and a modest drilling and exploration program is planned for this summer. MRI retains a 5.55% interest in the Aquarius joint venture whose prime orientation is in the search for gold.

Baymag Mines Co. Limited (MRI 51%)

Work continued during 1977 toward the development of marketing arrangements for both caustic burned magnesite and dead burned magnesite from the Baymag magnesite property where 21,265,000 tonnes of high grade magnesite have been drilled off. Tests carried out on typical caustic burned magnesite indicated it to be suitable for the pulp and paper industry and as an animal food supplement.

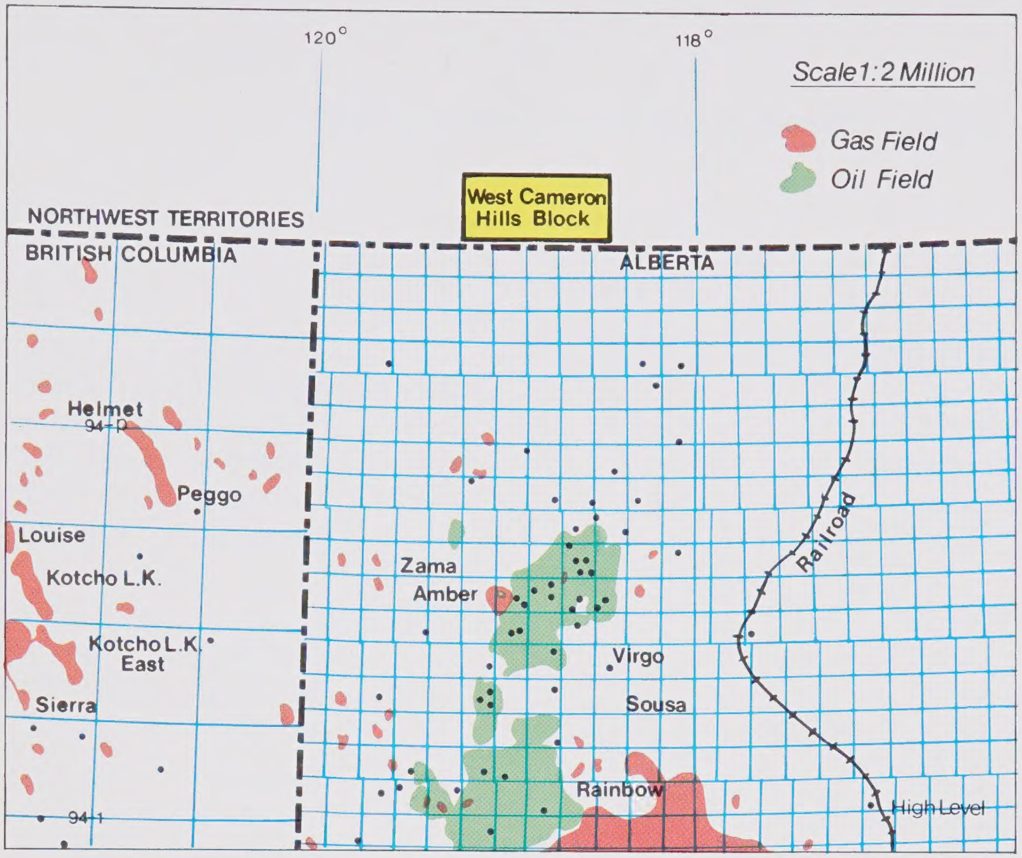
A 200 tonne bulk sample was taken and shipped to a European refractory company for processing into refractory bricks and testing under actual operating conditions. Interim results are encouraging and negotiations are underway with the European refractory company on a multi-stage development program based on an initial plant capable of producing 50,000 tonnes per year of dead burned magnesite and 30,000 tonnes per year of caustic burned magnesite.

Utah Uranium

MRI's wholly owned U.S. subsidiary, Aceite Corp., late in 1977 disposed of its 50% interest in a small uranium property in southeastern Utah for a $5,000 cash consideration plus a $50,000 promissory note secured by a 10% overriding royalty and a basic 5% royalty. Underground mining of the orebodies is expected to commence shortly.

West Virginia Coal Property

Following completion of a Feasibility Study, MRI will decide whether or not to proceed with the purchase of a multi-seam coal property in West Virginia. This is a joint venture with a U.S. company, D & M Investment Company, which would operate the property for a one-third interest with MRI retaining the remaining two-thirds interest. Bank financing for the purchase price and working capital necessary to build production up to one million tons per year has been tentatively negotiated. Core and rotary drilling has been completed and feasibility investigations should be finalized by mid-May. At present, two small underground mines are operated on the property by the current owners. Remaining recoverable reserves of good quality steam coal are estimated at some 16,500,000 tons. A number of coal burning power plants exist in the vicinity and other necessary infrastructure such as railroads, highways, labor availability, etc. is regarded as excellent.



Oil and Gas Properties

Aracca Oil and Gas Venture

MRI retains varying interests up to 7.5% in several large concession areas offshore West Africa totalling 15,500,000 acres. Probably the most attractive in terms of activity is the concession offshore Cameroons which has been farmed out to a major integrated oil company planning seismic exploration this year. Efforts continue to negotiate farmouts or other arrangements on the balance of the remaining acreage.

Texas Gas Play

Aceite Corp. has obtained a 50% interest in some 5,000 acres of oil and gas leases on the flank of a large deep seated salt dome structure in the vicinity of Houston, Texas. Negotiations are underway to farm out the lands which should result in at least one 14,000 to 16,000 foot test of the Wilcox sand in the structure.

Montana Oil Exploration

The Company, through Aceite Corp., has allowed some of its scattered leases near the Sumatra oil field to expire and now retains 5,200 acres of leases in the area. Negotiations are in progress to farm out certain of the properties.

West Cameron Hills Gas/Oil Play

In the Northwest Territories adjoining western Alberta's northern border, MRI has acquired a 90% working interest in 93,365 acres subject to gross overriding royalties of 5% to Hudson's Bay Oil & Gas Ltd. and 3% to Bowman Development Ltd.

Plans call for reprocessing and re-interpretation of key lines from approximately 400 miles of multi-fold seismic data shot over the area in the 1960's. On the basis of this work and its integration with available geological control, a drilling program may be recommended.

Saskatchewan Helium Property

The Company holds a 100% working interest in a 4,960 acre helium lease subject to a $12^1/_2$% overriding royalty in two shut-in gas wells near Mankota, Saskatchewan. The raw gas is primarily nitrogen but contains in excess of 1% helium. With the shutdown of the only helium/nitrogen plant in Saskatchewan, near Swift Current, due to exhaustion of reserves, considerable effort has been made to find a market for MRI's Mankota gas reserves which would justify constructing a separation plant. However, at this time economics do not appear promising and the company will continue to maintain the property at minimal cost for a possible future strengthening in the market.

Consolidated Balance Sheet as at December 31, 1977

Assets

	1977	1976
Current Assets		
Cash and short-term deposits (Note E)	**$ 4,042,244**	$ 505,279
Accounts receivable	**12,563,779**	1,324,869
Concentrates inventory	**5,775,273**	2,100,000
Parts and supplies inventories	**6,928,243**	4,163,124
Prepaids and other assets	**3,435,386**	910,281
	32,744,925	9,003,553
Property, Plant and Equipment		
Buildings	**6,745,836**	4,953,887
Plant and equipment	**22,716,675**	21,270,505
Properties and development expenditures	**28,706,330**	27,976,129
	58,168,841	54,200,521
Less Accumulated depreciation and amortization	**3,945,648**	—
	54,223,193	54,200,521
Other Exploration and Development Expenditures (Note C)	**4,622,133**	4,857,268
Other Assets		
Deferred expenditures (Note D)	**1,797,474**	1,491,058
Deferred financing costs	**557,257**	557,257
	2,354,731	2,048,315
Less Amortization	**(313,558)**	—
	2,041,173	2,048,315
	$93,631,424	$70,109,657

Auditors' Report

The Shareholders
Mineral Resources International Limited

We have examined the consolidated balance sheet of Mineral Resources International Limited as at December 31, 1977 and the consolidated statements of loss and deficit and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1977 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Calgary, Alberta
May 9, 1978

TOUCHE ROSS & CO.
Chartered Accountants

Liabilities

	1977	1976
Current Liabilities		
Bank loans (Note E)	**$16,778,820**	$ 2,494,762
Accounts payable and accrued liabilities	**3,443,494**	2,684,458
Accrued interest payable	**1,709,282**	876,452
Current portion of long-term debt	**2,924,107**	—
	24,855,703	6,055,672
Long-term Liabilities		
Long-term debt, net of current portion (Note F)	**58,815,715**	53,745,963
Purchase agreement (Note G)	**1,900,000**	2,025,000
Dock facilities payable (Note D)	**1,548,910**	1,491,058
	62,264,625	57,262,021
Total Liabilities	**87,120,328**	63,317,693
Minority Interests	**2,048,964**	1,974,966

Shareholders' Equity

Capital stock (Note H)		
Authorized		
10,000,000 shares without par value		
Issued		
7,267,174 shares (1976 — 7,246,174)	**7,055,720**	7,045,220
Deficit (Note H)	**(2,593,588)**	(2,228,222)
	4,462,132	4,816,998
	$93,631,424	$70,109,657

Signed on behalf of the Board

C. F. Agar Director

Director

Consolidated Statement of Loss and Deficit

For The Year Ended December 31, 1977

	1977	1976
Revenue		
Gross concentrate sales	$38,615,645	$ —
Less treatment, shipping and marketing charges	19,022,558	—
	19,593,087	—
Costs and Expenses		
Cost of sales	8,857,057	—
General and administrative	1,144,537	—
Foreign exchange	732,889	—
Interest	4,911,466	—
Depreciation and amortization	4,001,941	—
	19,647,890	—
Operating loss of Nanisivik Project (Note B)	54,803	—
Other (income) expenses		
Interest	(35,375)	(53,782)
Development and exploration	335,093	212,944
	299,718	159,162
Loss before minority interests	354,521	159,162
Minority interest in operation of subsidiary	10,845	—
Net loss for the year	365,366	159,162
Deficit at beginning of year	2,228,222	2,069,060
Deficit at end of year	$ 2,593,588	$2,228,222
Loss per share	$ .05	$ .02

Consolidated Statement of Changes in Financial Position

For The Year Ended December 31, 1977

	1977	1976
Source of Funds		
From operations		
Net loss for the year	**$ (365,366)**	$ (159,162)
Add items not requiring an outlay of funds		
Depreciation and amortization expense	**4,003,689**	1,681
Amortization included in shipping costs	**248,564**	—
Deferred exploration and development costs written off	**296,356**	114,615
Minority interest	**10,845**	—
	4,194,088	(42,866)
Increase in long-term debt, net of repayments and reclassification of current portion	**5,069,752**	17,353,682
Increase in minority interests in shares of subsidiary	**63,153**	—
Increase in dock facilities payable, net of reclassification of current portion	**57,852**	1,491,058
Sale of mining properties	**49,032**	—
Issuance of capital stock	**10,500**	2,000
	9,444,377	18,803,874
Application of Funds		
Additions to property, plant and equipment	**3,968,320**	15,645,339
Additions to other exploration and development expenditures	**103,300**	200,686
Additions to deferred expenditures	**306,416**	1,491,058
Payment on purchase agreement	**125,000**	—
	4,503,036	17,337,083
Increase in working capital	**4,941,341**	1,466,791
Working capital at beginning of year	**2,947,881**	1,481,090
Working capital at end of year	**$ 7,889,222**	$ 2,947,881

Notes to the Consolidated Financial Statements

December 31, 1977

A. Summary of Accounting Policies

1. *Subsidiaries and principles of consolidation*

The consolidated financial statements include the accounts of the Company and its subsidiaries:

Nanisivik Mines Ltd. ("Nanisivik")	— 56.96% owned	(Note B)
Baymag Mines Co. Limited ("Baymag")	— 51% owned	
Aceite Corp. ("Aceite")	— 100% owned	

Prior to March 1977 all subsidiaries were in the development stage and had reported no profits or losses to that date. However, in March 1977 Nanisivik attained commercial production and the results of its operations are included in the Statement of Loss and Deficit from that date.

2. *Revenue recognition*

Revenue is recognized at the point of final production of concentrates, such concentrates being in a deliverable form.

3. *Concentrates inventory*

Zinc and lead concentrates are valued at estimated net realizable value.

4. *Parts and supplies inventory*

Consumables, supplies and parts are valued at cost.

5. *Property, plant and equipment*

Property, plant and equipment are valued at cost plus the attributable excess of the cost of shares of certain subsidiaries over the net asset values acquired.

Depreciation and amortization is provided over the estimated lives of the assets on the following basis.

Producing mining properties on a straight line basis over the estimated life of the mine.

Buildings, plant and equipment on a straight line basis over the estimated life of the mine.

Mobile equipment on a diminishing balance basis at 30% per annum.

6. *Other exploration and development expenditures*

All direct and indirect costs related to the exploration and development of mineral and oil and gas properties are deferred. If it is determined that a project will not attain commercial production, the related costs are written off. In the case of the Helium property, the Company cannot determine whether commercial production will ever be achieved and consequently the cost of the property is being written off on a straight line basis amounting to $200,000 per year (commencing in 1977) to 1982 when the lease expires.

7. *Deferred financing costs*

Deferred financing costs are being amortized over the remaining terms of senior loans to which they relate.

8. *Foreign exchange*

Long-term loans have been converted into Canadian currency at historical rates of exchange. Current assets and liabilities have been converted into Canadian currency at rates of exchange in effect at December 31, 1977.

9. *Restatement*

Certain of the 1976 figures have been restated to conform with the 1977 presentation.

B. Nanisivik Zinc-Lead Mining Project

Nanisivik has a 100% working interest in the project, subject to a 35% net profits interest after recovery of development and exploration costs.

Metallgesellschaft AG, Billiton BV, and Texasgulf Inc. have provided overrun financing for the project. Additional shares owned by the Company in Nanisivik may be earned by Texasgulf Inc. for providing its share of such overrun financing. At December 31, 1977 Texasgulf Inc. earned the right to 2.54% and may earn an additional 3.36% by June 30, 1978.

C. Other Exploration and Development Expenditures

Included in exploration and development expenditures are the following:

Baymag magnesite project (Note G)	$3,747,913
Saskatchewan helium property	806,756
Other	67,464
	$4,622,133

D. Deferred Expenditures and Dock Facilities Payable

These expenditures represent 75% of the construction cost of the dock at the Nanisivik mine site. Amortization is charged to operations by way of usage charges as concentrates are shipped.

E. Bank Loans

Bank loans include the following:

Bridging loan — Nanisivik	$ 2,372,000
Working capital loan — Nanisivik	14,008,320
Other	398,500
	$16,778,820

a) The bridging loan is payable on demand and bears interest at the prime lending rate of a Canadian bank. It is secured by a specific assignment of CMHC mortgages and second mortgages.

b) The working capital loan is payable on demand in U.S. currency and bears interest based upon the London inter-bank offering rate. It is secured by the ore concentrates and receivables. Under the terms of the loan agreement the Company has to maintain minimum cash deposits on hand ($3,200,000 at December 31, 1977).

F. Long-Term Debt

	1977	1976
Senior loans		
Kreditanstalt Für Wiederaufbau	**$ 8,757,095**	$ 8,757,095
Toronto Dominion Bank	**9,000,000**	9,000,000
Citicorp Ltd.	**8,000,000**	8,000,000
	25,757,095	25,757,095
Less current portion	**2,380,000**	—
	23,377,095	25,757,095
Subordinated loans		
Metallgesellschaft AG	**3,755,838**	3,755,838
Billiton BV	**3,757,083**	3,757,083
Accrued interest	**2,270,680**	1,320,857
	9,783,601	8,833,778
Less current portion — accrued interest	**820,000**	—
	8,963,601	8,833,778
Overrun loans		
Metallgesellschaft AG	**671,290**	944,762
Billiton BV	**680,334**	954,638
Texasgulf Inc.	**8,599,166**	10,000,000
Accrued interest	**1,565,690**	458,560
	11,516,480	12,357,960
Consumable loans	**6,500,000**	—
Accrued interest	**328,562**	—
	6,828,562	—
Less current portion	**400,000**	—
	6,428,562	—
Mortgages payable	**4,400,575**	2,623,135
Less current portion	**44,593**	—
	4,355,982	2,623,135
Other loans		
Metallgesellschaft AG	**521,900**	521,900
Billiton BV	**521,900**	521,900
Texasgulf Inc.	**3,130,195**	3,130,195
	4,173,995	4,173,995
	$58,815,715	$53,745,963

a) *Nanisivik senior loans*

The amount due to the Toronto Dominion Bank at December 31, 1977 was $8,873,186 U.S. ($9,170,815 Cdn. at December 31, 1977 exchange rates), and carries an interest rate equivalent to the LIBO rate plus 1¼% per annum. The current portion of the loan due March 31, 1978, is $1,242,246 U.S. ($1,359,514 Cdn. at December 31, 1977 exchange rates).

The amount due to Citicorp Ltd. carries an interest rate equivalent to that of the 90 day Canadian commercial paper rate, plus 1¾% per annum. The current portion of the loan, due March 31, 1978, is $1,120,000.

The amounts due the Toronto Dominion Bank and Citicorp Ltd. are repayable in annual instalments during the period March 31, 1978 to March 31, 1983 inclusive.

The amount due to Kreditanstalt Für Wiederaufbau at December 31, 1977 was 22,000,000 Deutsche Marks ($11,497,200 Cdn. at December 31, 1977 exchange rates), repayable in annual instalments during the period March 15, 1980 to March 15, 1986. The loan carries an interest rate of 1¼% per annum plus the effective rate of borrowing equivalent funds on the German capital market.

The senior loan agreements require prepayments from a portion of excess cash flow.

The average rate of interest in effect in December of 1977 on senior loans was 9.05%.

b) *Nanisivik subordinated loans*

Metallgesellschaft AG and Billiton BV have agreed to provide additional loans totalling $8,000,000 to Nanisivik, of which $7,512,921 had been drawn at December 31, 1977. These loans are subordinated to the senior loans provided by the banks.

The loans carry an interest rate of ¼ of 1% above the weighted average interest on the senior loans, and after the repayment of the senior loans, at a rate of 2¼% above the prime lending rate of the Toronto Dominion Bank. The amounts due to Metallgesellschaft AG and Billiton BV at December 31, 1977 were 11,430,183 Deutsche Marks and 11,702,498 Dutch Guilders respectively, including accrued interest ($5,973,414 Cdn., and $5,664,009 Cdn. at December 31, 1977 exchange rates). The loans are repayable on January 1, 1986 and can be extended under certain circumstances.

c) *Security on senior and subordinated loans*

Senior and subordinated loans are secured by fixed and specific charges on the mining property and on all plant, fixed machinery and fixed equipment purchased or acquired by Nanisivik, and by a floating charge on the undertaking and all other property and assets of Nanisivik.

Metallgesellschaft AG and Billiton BV have guaranteed the obligations of Nanisivik under the senior loan agreements, and the Company has in turn guaranteed the performance of the guarantee by Metallgesellschaft AG and Billiton BV.

d) *Nanisivik overrun loans*

By an agreement dated in 1975, provision is made for overrun loans to Nanisivik not exceeding $12,500,000 (Cdn. equivalent) from Texasgulf Inc., Metallgesellschaft AG and Billiton BV. These loans are subordinated to the senior loans provided by the banks.

The overrun loans carry the same rate of interest as subordinated loans and are secured by fixed and floating charges on the mining property and on all plant, fixed machinery and fixed equipment purchased or acquired by Nanisivik, and by a floating charge on the undertaking and all other property and assets of Nanisivik but subject to the security of subordinated loans. The loans are repayable on January 1, 1986 and can be extended under certain circumstances. The amounts due to Metallgesellschaft AG and Billiton BV at December 31, 1977 were 1,838,521 Deutsche Marks and 1,978,874 Dutch Guilders respectively, including accrued interest ($960,811 Cdn. and $958,259 Cdn. at December 31, 1977 exchange rates).

e) *Nanisivik consumable loans*

Consumable loans consist of amounts payable to Metallgesellschaft AG of $3,182,353 U.S., including accrued interest ($3,482,767 Cdn. at December 31, 1977 exchange rates), and Billiton BV of 7,820,249 Dutch Guilders, including accrued interest ($3,785,000 Cdn. at December 31, 1977 exchange rates). These loans have the same rate of interest and security as subordinated loans and the excess over $3,000,000 is repayable from excess cash flow.

f) *Nanisivik mortgages payable*

The mortgages are payable to Central Mortgage and Housing Corporation, carry interest rates of 10% and 11.75% and are repayable in blended monthly instalments based on a twenty-five year amortization terminating in February 1998. The mortgages are secured by the residential properties at the townsite.

g) *Nanisivik other loans*

These loans are non-interest bearing and are repayable after all development costs have been recovered through mine operations.

G. Purchase Agreement

Acquisition of interest in Baymag Mining Co. Limited

During 1975, the Company acquired 1,600,000 additional shares of Baymag Mines Co. Limited for $2,275,000 payable by instalments without interest. A portion of the purchased shares are held in trust as sole security for the outstanding balance.

For payments of $375,000 to December 31, 1977 the Company has received 375,000 shares of Baymag. A further 125,000 shares are deliverable by the Trustee upon payment of $125,000 due on September 1, 1978. The balance of 1,100,000 shares will be delivered to the Company upon the final annual payment of $150,000 on September 1, 1990. At December 31, 1977 payments of $1,900,000 in the total remained to be made under the terms of the agreement.

The agreement provides that the only remedy of the vendor in the event of failure of the Company to make any payment is the return of the shares then being held by the trustee.

As at December 31, 1977 the Company owned 1,959,690 shares of Baymag or 51% of the outstanding capital stock of Baymag.

H. Capital Stock

1. Issued stock is summarized as follows:

	1977		1976	
	Shares	**Amount**	Shares	Amount
Balance at beginning of year	**7,246,174**	**$7,045,220**	7,242,174	$7,043,220
Issued For options exercised	**21,000**	**10,500**	4,000	2,000
Balance at end of year	**7,267,174**	**$7,055,720**	7,246,174	$7,045,220

2. In August 1976, the Company's Articles were amended decreasing the issued capital and deficit accounts by $18,388,129.

3. A total of 350,000 of the Company's treasury shares were reserved for allotment to designated employees pursuant to the Company's 1975 Employees' Share Purchase Plan. Of these, 175,000 remained reserved for issue at December 31, 1977. Accounts receivable include $150,000 owing to the Company pursuant to the plan.

I. Income Taxes

At December 31, 1977 the Company and its subsidiaries had approximately $61,000,000 available tax deductible expenditures.

The Company has eight directors whose aggregate remuneration for the year as directors was $1,750 (1976 — $1,500). The Company has three officers whose aggregate remuneration for the year as officers was $55,000 (1976 — $50,000). All of the officers are also directors.

K. Subsequent Events

1. The Company entered into agreements subsequent to December 31, 1977 whereby it has agreed to jointly acquire certain coal producing properties. A condition of the agreements is favourable completion of a feasibility study.

2. The Company's subsidiary, Aceite Corp. entered into agreements with a Texas company in January 1978 whereby Aceite would provide funds for the acquisition of certain oil and gas leases in Texas. The Company will forward funds pursuant to the agreement on Aceite Corp.'s behalf.

3. In the first quarter of 1978, Nanisivik incurred losses of approximately $2,200,000 (after depreciation and amortization of $1,025,000) primarily due to the loss of half a month's production as a result of equipment failure, exchange losses and declining zinc prices. The Company's share of these losses is $1,250,000.

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